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Mr. Johnson

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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(5 December - 11 December 1966)

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I. POLITICAL SITUATION

Official developments on the political scene in South Vietnam last week were overshadowed by the assassination of a prominent member of the Constituent Assembly. The killer has admitted Viet Cong connections, and there is no evidence to suggest that he is anything other than an enemy terrorist. The assembly postponed further substantive sessions because of the incident. Earlier in the week, the ruling Directorate had met and decided to reject an assembly proposal which would have limited the Directorate's power to amend the draft constitution. The decision, however, has not yet been formally conveyed. In other developments, one of Premier Ky's personal assistants told the US Embassy that several Vietnamese ambassadors will be replaced or moved to other posts.

Constituent Assembly Member Assassinated

1. Work in the Constituent Assembly came to a halt last week following the assassination of Tran Van Van, one of the assembly's most prominent critics of the Ky government. Van was en route to an assembly session on the morning of 7 December when two men on a motorcycle fired the fatal pistol shots into his car. One of the killers was captured shortly thereafter by the Vietnamese police; the other man escaped.

2. According to a Vietnamese source, the alleged assassin at first denied being a member of the Viet Cong. Under subsequent police interrogation, however, he admitted belonging to a section of the Viet Cong Regiment for the Liberation of the Capital. He claimed to have been forcibly recruited for the assassination task three months ago, trained at a base camp in Binh Duong Province, and sent into Saigon a week prior to the killing. Although the terrorist denied firing the fatal shots, the police reportedly found that his hands showed traces of gunpowder and that his pistol had fired a bullet retrieved from Van's automobile.

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3. If the killing was indeed a plot of the Viet Cong, as seems likely, the choice of Van as the target would seem a good one from their point of view. He was one of the leading southern activists in the assembly and a thorn in the side of the northern-oriented Ky regime during the recent cabinet crisis. The Communists may have calculated that the murder of a major critic of the Ky government would draw suspicion to the regime itself and further sharpen the conflict between northerners and southerners.

4. A day after Van's death, Radio Hanoi and the Viet Cong radio in South Vietnam accused Ky and Thieu of "sending their agents into the streets" to murder him. The broadcasts cited Western press reports speculating that southern antipathies toward the government might be aroused and bring political turmoil. US officials in Saigon, however, have discounted internal political implications in the killing, and there has been no reported adverse reaction from southern assemblymen. The Viet Cong had threatened publicly, prior to the 11 September elections, that they would assassinate candidates for the assembly.

Other Constituent Assembly Developments

5. The assembly will hold its next substantive session early in the week of 12 December. Before adjourning because of Van's murder, it did hear some recommendations on the organization of the future government put forth by the constitution-drafting committee. Those recommendations were similar to the ones presented earlier by other committees advocating four independent government branches: an elected president, a bicameral legislature, a judiciary, and an inspectorate. Although the deputies are generally in agreement, they are still divided about equally on whether to include a prime minister in the system. They also appear to be in favor of providing for elected province chiefs and mayors under the new constitution.

6. Several committee members who were assigned to study selected aspects of a future constitution argued that the present administrative system is not responsive to regional and local needs. They maintained

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that too much power has been vested in the hands of the corps commanders to the detriment of the province, village, and city officials. Moreover, they characterize the presently appointed government officials at the province level and lower as generally ineffective either because they are military officers with little administrative experience or because they are underpaid.

7. The committees also recommended instituting a strong system of checks and balances on the government through the following provisions. The legislature should have the right to vote on the national budget, to approve high-level appointments, and to question the executive. The inspectorate and the judiciary should be allowed to check on the abuses of power. The people and the press should have the right to criticize openly the execution of national policy. A legal opposition and a system of political parties should be formalized. The head of state should be limited to one four-year term in office. Neither the executive head of state nor the national assembly should have the constitutional right to dissolve the other.

Directorate Rejects Assembly Proposals

8. The Directorate has decided to reject proposals which would have changed seven articles in the basic charter of the Constituent Assembly. The proposals were submitted to the Directorate on 18 November by a 12-man delegation of assembly leaders. One of the most controversial clauses in the charter, Article 20, empowers the Directorate to amend the draft constitution before it becomes law. According to reliable clandestine sources, the decision to reject the proposals was made at a meeting in early December, attended by the ten military members and eight of the civilians on the 20-member Directorate, but has not yet been officially conveyed to the assembly. Many of the deputies reportedly know that the decision has been made, according to the US Embassy, but several of them have said that the Directorate's inflexible stand is not likely to disrupt the assembly's work.

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Several Ambassadorial Changes Likely

9. Prime Minister Ky has officially requested that the Ministry of Foreign Affairs replace Vu Van Thai, the present ambassador to the United States, with Bui Diem, one of Ky's close civilian advisers. The United States has accepted the nomination. Ambassador Thai now is in Saigon, but no date has been set for Diem's departure for Washington.

10. According to another of Ky's assistants, Dinh Trinh Chinh, several other Vietnamese ambassadors will be replaced or shuffled in the near future. Chinh himself is slated for the ambassadorship to Thailand. Other posts affected include Laos, Japan, South Korea, Australia, Tunisia, Malaysia, and the United Nations observer. Chinh states that some of the new ambassadors will be generals who do not presently have significant positions in the military.

11. Recent reports have indicated that the ruling generals have been pressuring the Foreign Affairs Ministry to assign persons whom they favor to ambassadorial posts. Tran Van Do, the ministry head, has registered several complaints to Ky about the alleged military interference.

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II. REVOLUTIONARY DEVELOPMENT

Some 2,500 refugees and 64 defectors returned to GVN control in Kien Giang Province after an intensive psychological warfare campaign, backed up with air strikes. Although Revolutionary Development continues to progress favorably in An Giang Province, many problems remain; the principal one is the Hoa Hao political structure which dominates the province and is resistant to change. Land reform efforts may receive new impetus under a new program to allocate funds for a four-pronged approach to improving land tenure conditions for the farmers. Although impressive gains were reported by the GVN in the number of hamlets secured in October, the embassy notes that many of these may represent only paper gains.

Refugees Flee Viet Cong Areas in Kien Giang

1. In December approximately 2,500 refugees have fled a Viet Cong - controlled area in the Hon Chong Mountain area, some 35 miles northwest of the province capital of Rach Gia, Kien Giang Province. The refugees left the Viet Cong base area, according to a MACV report, largely as the result of the combined pressures of air attacks and an intensive, carefully coordinated allied psychological warfare campaign. The refugee group included about 1,200 children.

2. Although the refugees expressed dissatisfaction with Viet Cong control techniques, they are anxious to return to their home areas to begin harvesting their rice. An exodus of this magnitude demonstrates that Viet Cong control of the population may be effectively challenged by a carefully prepared and executed psywar campaign. A follow-up psychological operation is reportedly being planned to exploit this situation more fully.

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3. In addition to the refugees, 64 Viet Cong defectors came under government control in Kien Giang. Included in the defector group were one noncommissioned officer, a tax collector, and several cadre.

Revolutionary Development in An Giang

4. An Giang Province, according to a 10 November embassy report, is today clearly the most prosperous province in the delta region, but much work remains to be done to implement fully all aspects of the Revolutionary Development program. The principal reason for this somewhat dark view of the situation in the province is the tight hold maintained by the Hoa Hao power structure on the affairs of the province and apparent Hoa Hao reluctance to a change in the status quo.

5. Hoa Hao power in the province is not monolithic, but rather fractionalized among several elements. While mutually competitive, these factions will unite in the face of any challenge by US advisers, the GVN, the Viet Cong, or any other outside intruders. In An Giang, the three principal factions are: the Central/Hoa Hao Church organization; a local group headed by the province chief, Lt. Col. Ly Ba Pham; and another element led by "Colonel" Nguyen Van Hue, the chairman of the Province Council.

6. One of the chief failings of the RD program in the province, according to this report, has been in efforts to implement the GVN land reform policy. This program, it seems, will be very difficult to initiate here. For example, although extensive aerial photography has been conducted to determine the province's cadastral structure, the province chief, Lt. Colonel Pham, has "refused to discuss" the uses to which this information may be put. Although recent decisions may have largely negated information relating to the land reform program contained in this embassy report (see Land Reform below), even a concentrated GVN effort may founder in the shoals of regionalism and factionalism.

7. Another aspect of RD in which progress is apt to be slow is public health. A new and well-equipped dispensary exists, but is headed by an inadequately

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trained former practitioner of oriental medicine whom the people, because of their mistrust, will not patronize. Consequently, a resident medical assistant and two nurses remain idle. The main source of medical care at the present time is US and third-country programs, such as the MEDCAP and MILPHAP teams which have made a large impact on the population. Improvement in public health facilities in An Giang and the entire delta region would be a significant contribution to the well-being of the peasants who in other respects are relatively well off. The GVN would stand to gain an easy and impressive psychological warfare victory by instituting a well-founded medical program for An Giang--a service which the Viet Cong are wholly ill equipped to provide.

8. The seven Revolutionary Development Cadres (RDCs) teams are working rather rapidly and well in An Giang, spending only two or three weeks in each hamlet. This rapid pace is possible because the security situation is generally good in An Giang. Paradoxically, this situation gives rise to another problem--underemployment of the greater part of the normal 59-man RDC teams. Two-thirds of each team's members carry arms and are responsible for providing security for remaining team members fulfilling census-grievance and other duties. These armed elements are now largely idle, although they have been employed in flood relief work.

9. Several criticisms have been voiced about the RDC teams in An Giang, as in other parts of the country. Specifically, they have been called "cowboys" from urban areas not adapted to work in the countryside. Also, they are not recruited from the areas in which they are to work; they are often poorly motivated, trained, and led, and indifferent to local village traditions or to village elders. Furthermore--and this may be the reason for much of the criticism of the RDCs--village and hamlet officials are not paid as well as the RDCs.

10. Although the over-all situation in An Giang is good, there has been no radical departure from the ways of the past. The people do not appear to demonstrate any greater loyalty to or love for the GVN, and the traditional Hoa Hao power structure which commands loyalties remains intact.

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Land Reform

11. Priority emphasis is reportedly being given by the GVN and the US to the implementation of all existing GVN land tenure policies in An Giang Province, according to the recent embassy reporting. Other selected areas will also receive increased attention. In order to assist the program in getting under way, some VN\$30 million in counterpart funds has been allocated for the following projects:

- a. Distribution, with full titles, of former French-held, expropriated, and squatter lands;
- b. Investigation, updating, and renewal of tenant-landlord contracts;
- c. Establishing: (1) positions of village land officer/registrar and (2) village agricultural committees;
- d. Special assistance to An Giang by means of counterpart funding and use of photogrammetry for preparation of title descriptions, land use and capability studies, and an integrated agrarian development plan for a 6,000- to 7,000-hectare tract.

12. During the past year there have been several instances--accompanied by great fanfare--where land titles were presented to these tilling the soil, but these seemed to be mainly for propaganda purposes. The new program appears to be a serious, concerted effort to solve one of the most difficult problems facing any government in Saigon--the effective redistribution of land to peasants who have spent many years cultivating it without anything tangible to show for their efforts. An effective land reform program could go a long way toward undercutting Viet Cong support among the peasants and winning them over to the GVN cause.

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Hamlet Security

13. According to statistics received from the GVN there was a net increase of 156 secured hamlets throughout the country during October. Although this figure is an impressive one, the embassy believes it should be accepted only with caution. There are indications that some of these hamlets are secured on paper only, and that the GVN statistics represent an effort by local officials to meet previously established goals. There was a corresponding increase of 1.4 percent in the secured population, raising the total to 56.8 percent of the population--or 8,541,400 persons--living in secured areas.

Viet Cong Defectors (Chieu Hoi)

14. The total of returnees to government control in 1966 rose to 18,190 as of 7 December. During the week of 1-7 December there were 464 returnees, according to GVN statistics. A breakdown of this week's returnees by Corps Tactical Zone follows:

I Corps	63
II Corps	280
III Corps	44
IV Corps	<u>77</u>
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III. ECONOMIC SITUATION

The week ending 5 December was highlighted by a sharp rise in Saigon retail prices, partly because of lower deliveries of rice and protein foods to Saigon. As a result of this increase, retail prices are now at their highest level of the year with the exception of the peak that was reached during the September elections. Prices of imported commodities, on the other hand, declined slightly, and free market gold and currency prices showed only small variations. An embassy analysis of provincial prices during July-October shows that these prices are generally well above those in Saigon, but the degree by which the two sets of prices vary has diminished.

US and GVN officials held their sixth joint economic meeting at which Minister of Finance Kien reported that the GVN had decided to permit importers to postpone payment of customs duties in an attempt to ease the importers' need for credit. The US prefers an expansion of the commercial banks' capacity to extend credit to importers--a proposal which Governor Hanh has approved. A US-GVN subcommittee on pork has recommended removal of the official price ceiling on pork, provided cold storage facilities are constructed to hold reserves of pork. Discussions with senior GVN economic officials indicate general agreement with the US-suggested increase in the government price of rice but disagreement with the US proposal for establishing GVN rice buying stations.

Prices

1. Retail prices in Saigon rose sharply during the week ending 5 December, partly because of lower deliveries of rice and protein foods to Saigon.

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Both food and non-food items were higher, resulting in a gain of seven percent in the over-all USAID retail price index. This index is now at its highest level of the year with the exception of the peak reached at the time of the September elections. The food index rose eight percent, largely because of soaring rice and pork prices. On 5 December the price of the type of rice used by the working class reached a new 1966 high of 1,700 piasters per 100 kilograms, or 36 percent above the level prevailing just prior to the June devaluation. The price of pork bellies rose to 130 piasters per kilogram--an increase of more than 50 percent above the previous week--reportedly because demand for pork increased while deliveries to Saigon were lower. Beef, fish, and chicken also were higher. The non-food index was three percent above the previous week, largely because of higher prices for charcoal and calico. Heavy pre-Tet purchases of calico caused an 18 percent increase in the price of this commodity. (A table of weekly retail prices in Saigon is included in the Annex).

2. Prices of imported commodities, on the other hand, were slightly lower as measured by the USAID price index for selected US-financed imports. Condensed milk and wheat flour were lower as the market continued to be well supplied, and sugar was unchanged. Fertilizers, chemicals, and rayon yarn edged up slightly. A similar slight upward price movement was recorded by construction materials because of increased demand occasioned by the start of the new construction season.

Currency and Gold

3. Free market prices for dollars and MPC (scrip) moved up slightly during the week ending 5 December. Gold, on the other hand, declined again, reportedly because of an expectation of a further reduction in the official sale price of gold and the continuation of tight cash conditions. Currency price quotations for 5 December have not yet been reported.

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Provincial Prices

4. The embassy has just completed a series of price indexes for each of the four regions of South Vietnam based on price reports received for the period 30 June - 31 October 1966 from selected provinces within each region. Although these indexes are relatively crude and in some cases based on incomplete reporting, they show three rather significant trends: (a) with the exception of Region IV, provincial prices generally are well above those in Saigon; (b) after the initial post-devaluation increase in prices, provincial prices have generally not increased significantly and in some cases have declined; and (c) the degree by which provincial prices exceed those of Saigon has diminished during the period studied.

Joint US-GVN Economic Meeting

5. US and GVN officials recently held their sixth joint economic meeting, which was co-chaired by Acting Minister of Industry Ton and USAID Director MacDonald. On the question of credit to importers, Minister of Finance Kien reported that, quite apart from the issue of bank credit, the GVN had decided to give authority to the Director of GVN Customs to permit importers to postpone payment of their customs duties. Importers will put up real estate as collateral. Kien and Ton believe that this liberalization will be sufficient to satisfy the importers' complaint of a lack of customs credit and will assist in speeding up the flow of goods through the port.

6. Kien also proposed that port congestion be relieved by using importers' declarations as the basis for the assessment of duties instead of checking all imported goods. Spot checks would be made to encourage honest declaration. Ton and Kien again expressed the view that the advent of the dry season will induce importers to clear construction materials through the port.

7. The pork subcommittee set up at the fifth US-GVN economic meeting submitted recommendations on

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pork policy. This subcommittee, which is composed of US and GVN economic officials, agreed that the present ceiling price on hogs in Saigon does not and cannot effectively control pork prices. Consequently, the group recommended that this ceiling price be eliminated in order to increase deliveries of hogs from the delta and lower pork prices in Saigon. The subcommittee felt, however, that controls should not be removed until means of indirect supply can be set up. For this purpose, the group recommended the construction of a 2,000-ton capacity freezing plant to hold frozen stocks for use in stabilizing prices and providing emergency supplies in case of acute shortages. Among other measures recommended by the pork subcommittee were: importation of live hogs from Thailand to meet Tet requirements, importation of 500 tons of frozen pork, measures to reduce losses from hog cholera, importation of pure-bred swine for breeding, and the establishment of new feed mills. The US promised to determine promptly whether USAID could finance a cold storage plant.

GVN Views on Rice Policy

8. Separate discussions on rice policy with several senior GVN economic officials--including National Bank of Vietnam Governor Hanh, Minister of Commerce Thien An, and Acting Minister of Industry Ton--indicate a general agreement with the US-suggested increase in the government price of rice and the necessity of announcing a new higher rice price promptly. At the same time, however, these GVN officials do not agree with the US proposal for establishing GVN rice buying stations. Moreover, they all expressed the opinion that announcement of a new GVN rice policy will depend largely on Premier Ky's approval in view of possible adverse political reactions from the urban consumer.

9. Governor Hanh feels that there should be a sharp increase in the rice price paid to the farmer in order to increase production and demonstrate GVN concern for the farmers' welfare. Hanh stated that although the GVN would be running

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certain political risks in the urban areas, the new rice policy should be a clear break with the present policy of trying to conciliate noisy urban consumers at the expense of the silent peasant. With regard to the US suggestion for GVN rice buying stations, Hanh stated emphatically that the GVN is incapable of conducting buying operations because such a system would be too enticing for those who wish to make personal gains. As an alternative, Hanh suggested the extensive use of information leaflets to inform the farmers of a new government price. He also felt that a liberal credit policy should be established to finance rice purchases at a new government-supported price. According to Hanh, the greatest problem will be ensuring the security of the rice moving from the delta to Saigon.

10. Minister of Commerce Thien An and his staff generally agree with Hanh's views, especially his opinion that the GVN is unable to operate buying stations. Thien An stated that the low pay of and lack of discipline among GVN officials precluded such an operation. In spite of the possible political repercussions of higher rice prices, Ministry of Commerce officials feel that they should make a technically and economically sound proposal to achieve higher prices for producers. In their view, the questions to be considered are: (a) whether and to what level prices should be raised, (b) whether the market in domestic rice should be liberalized or new higher prices should be set, and (c) if the market is liberalized, what would be the best way to avoid excessive price increases and supply shortages. Thien An evidently feels that a free market--without price or other controls--would be the best solution.

11. As a result of these GVN views, the US Mission is examining the possibility of dispensing with the GVN buying station aspect of the US plan. The GVN proposal to increase credit to finance rice purchases also will have to be examined in terms of the impact of this credit on the inflationary gap and over-all price level.

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Credit Policy

12. The US Embassy reports that failure to move immediately to expand the capacity of commercial banks to provide credit for imports could well cause a serious financial crisis and result in irreparable damage to the proposed stabilization program for calendar year 1967. Vietnamese commercial banks are almost fully loaned up and cannot obtain funds to finance imports as they arrive. Unless these banks make credit available immediately, importers will be forced to go to the money lenders or simply leave their goods in the port, thus adding to the already critical port congestion. Moreover, until additional credit is available, all current income of the importers will be needed to move goods already in the port. Consequently, importers will be unable to cover advance deposits and taxes on new import licenses with the result that serious shortages of commodities will develop by next spring.

13. It appears that it was possible for the commercial banks to finance the heavy commitments they made in July and August at the encouragement of the National Bank of Vietnam (NBVN) only because of an accounting bottleneck which resulted in the NBVN's being four months behind in its billing of the commercial banks. This mix-up, however, has now been cleared up, and the banks need funds. The NBVN has been hampered in formulating a proper credit policy because of the incorrect assumption that the volume of credit outstanding on the day of devaluation last June had only to be increased to accommodate for the change in the exchange rate plus the anticipated increase in imports. The IMF also used this method to arrive at its estimates of tolerable credit limits. Both the NBVN and the IMF, however, evidently overlooked the fact that as rapid inflation manifested itself in 1965, wholesalers began to take over financing of high profit imports in an effort to corner supply. Since the devaluation, however, black market prospects--except for a few commodities--are dim, and wholesalers no longer have the cash to continue financing importers. As a result, the amount of credit to be made available for imports should make allowance for the volume of imports previously financed outside the banking system.

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14. According to embassy calculations, a minimum of roughly 10 billion piasters of additional credit must be made available before mid-January. Such an expansion of credit to the importing sector will not have a significant inflationary impact because credit to importers involves payments to the NBVN rather than creation of demand deposits. Moreover, about 95 percent of all credit currently supplied by the banks in Vietnam is for financing imports--the major anti-inflationary weapon. Although a definition of credit by end-use is somewhat tenuous, the Vietnamese banking and business community seems to concur in this 95 percent estimate. In addition, US officials feel that an expansion of bank credit is a much more productive and direct approach to combating the shortage of funds for imports than other plans such as the GVN deferred customs duties scheme, which will only satisfy part of the importers' need for credit, while temporarily reducing GVN revenues.

15. On 3 December, the US economic counselor met with Governor Hanh of the NBVN, who agreed that steps must be taken to expand credit. Hanh thought, however, that an additional 10 billion piasters of credit was probably too much. Nevertheless, on 5 December Hanh called a meeting of commercial bankers and informed them he was prepared to make more credit available for imports. Specific details on Hanh's announcement are not yet available.

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ANNEX

WEEKLY RETAIL PRICES IN SAIGON a/

	3 Jan 1966	14 Nov 1966	21 Nov 1966	28 Nov 1966	5 Dec 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>224</u>	<u>227</u>	<u>217</u>	<u>231</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>230</u>	<u>236</u>	<u>226</u> c/ <u>243</u> c/	
Of Which: (In Piasters)					
Rice-Soc Nau (100 kg.)	800	1,650	1,600	1,600	1,700
Pork Bellies (1 kg.)	70	110	85	85	130
Fish-Ca Tre (1 kg.)	110	150	180	140	150
Nuoc Mam (jar)	50	85	85	85	90
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>202</u>	<u>197</u>	<u>195</u> c/ <u>200</u> c/	
Of Which: (In Piasters)					
Charcoal (60 kg.)	440	650	620	630	650
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	35	35	34	40
Laundry Soap (1 kg.)	30	45	32	40	40

a. Data are from USAID sources.
b. For all indexes, 1 January 1965 = 100.
c. Preliminary.

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